



FEDERAL RESERVE SYSTEM

Agency Information Collection Activities: Announcement of Board

Approval Under Delegated Authority and Submission to OMB

AGENCY: Board of Governors of the Federal Reserve System

SUMMARY: Notice is hereby given of the final approval of a proposed information collection by the Board of Governors of the Federal Reserve System (Board) under OMB delegated authority, as per 5 CFR 1320.16 (OMB Regulations on Controlling Paperwork Burdens on the Public).

Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statements and approved collection of information instrument(s) are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

FOR FURTHER INFORMATION CONTACT:

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OMB Desk Officer — Shagufta Ahmed — Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503.

Final approval under OMB delegated authority of the extension for three years, with revision, of the following report:

Report title: Annual Company-Run Stress Test information collection.

Agency form number: FR Y-16.

OMB control number: 7100-0356.

Effective Date: March 31, 2015.

Frequency: Annually.

Reporters: Bank holding companies (BHCs), savings and loan holding companies (SLHCs)¹ with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any affiliated or unaffiliated state member bank (SMB) with average total consolidated assets of more than

¹ SLHCs are not subject to Dodd-Frank Act annual company-run stress testing requirements until the calendar year after SLHCs become subject to regulatory capital requirements. All SLHCs except those substantially engaged in insurance underwriting or commercial activities are subject to capital requirements beginning in 2015. These “covered SLHCs” are required to report using the FR Y-16 beginning in March 2017 (stress test as-of date September 30, 2016).

\$10 billion but less than \$50 billion excluding SMB subsidiaries of covered companies.²

Estimated annual reporting hours: 38,623 hours

Estimated average hours per response: 469 hours; 3,600 hours, one-time implementation.

Number of respondents: BHCs, 46; SLHCs, 11; SMBs, 10; and one-time implementation, 2.

General description of report: This information collection is authorized pursuant to Section 165(i)(2) of the Dodd-Frank Act that specifically authorizes the Board to issue regulations implementing the annual stress testing requirements for its supervised institutions. 12 U.S.C.

§ 5365(i)(2)(C). More generally, with respect to BHCs, Section 5(c) of the Bank Holding Company Act, 12 U.S.C. § 1844(c), authorizes the Board to require a BHC and any subsidiary “to keep the Board informed as to – (i) its financial condition, [and] systems for monitoring and controlling financial and operating risks” Section 9(6) of the Federal Reserve Act, 12 U.S.C.

§ 324, requires SMBs to make reports of condition to their supervising

Reserve Bank in such form and containing such information as the Board

² “Covered companies” are defined as BHCs with at least \$50 billion in total consolidated assets and nonbank systemically important financial institutions, subject to annual supervisory stress tests and semi-annual company-run stress tests.

may require. Finally, with respect to SLHCs, under Section 312 of the Dodd-Frank Act, 12 U.S.C. § 5412, the Board succeeded to all powers and authorities of the OTS and its Director, including the authority to require SLHCs to “file ... such reports as may be required ... in such form and for such periods as the [agency] may prescribe.” 12 U.S.C. § 1467a(b)(2).

Obligation to Respond is Mandatory: Section 165(i)(2)(A) provides that “financial companies that have total consolidated assets [meeting the asset thresholds] ... and are regulated by a primary Federal financial regulatory agency shall conduct annual stress tests.” Section 165(i)(2)(B) provides that a company required to conduct annual stress tests “shall submit a report to the Board of Governors and to its primary financial regulatory agency at such time, in such form, and containing such information as the primary financial regulatory agency shall require.” 12 U.S.C. § 5365(i)(2)(B).

Confidentiality: As noted under Section 165(i)(2)(C)(iv), companies conducting annual stress tests under these provisions are “require[d] ... to publish a summary of the results of the required stress tests.” 12 U.S.C. § 5365(i)(2)(C)(iv). Regarding the information collected by the Board, however, as such information will be collected as part of the Board’s supervisory process, it may be accorded confidential treatment under Exemption 8 of the Freedom of Information Act (FOIA), 5 U.S.C.

§ 552(b)(8). This information also is the type of confidential commercial and financial information that may be withheld under Exemption 4 of FOIA, 5 U.S.C. § 552(b)(4). As required information, it may be withheld under Exemption 4 only if public disclosure could result in substantial competitive harm to the submitting institution, under *National Parks & Conservation Ass'n v. Morton*, 498 F.2d 765 (D.C. Cir. 1974).

Abstract: The annual FR Y-16 report collects quantitative projections of income, losses, assets, liabilities, and capital across three scenarios provided by the Board (baseline, adverse, and severely adverse) and qualitative supporting information on the methodologies and processes used to develop these internal projections.

Current Actions: On July 15, 2014 the Federal Reserve published a notice in the *Federal Register* (79 FR 41276) requesting public comment for 60 days on the extension, with revision, of the FR Y-16. The Federal Reserve proposed the following revisions and clarifications to the FR Y-16 report for the report submission due annually beginning on March 31, 2015: (1) add common equity tier 1 capital as a data item, (2) add common equity tier 1 risk based capital ratio as a data item, and (3) modify the reporting instructions to clarify a number of items. The comment period for this notice expired on September 15, 2014. The Federal received one comment

letter addressing the proposed revisions of this information collection. The comment is summarized and addressed below.

Summary of Public Comment

The Federal Reserve received one comment letter on the proposed revisions to the FR Y-16 from a modeling service provider. The commenter questioned the introduction of the new regulatory capital, risk-weighted asset, and regulatory capital ratio calculations in the FR Y-16 for the March 2015 report; asserting that \$10-50 billion companies will lack relevant data for the proposed new capital items and definitions in advance of when these items are required to be reported in the Consolidated Report of Condition and Income (Call Report: OMB No. 7100-0036) and the Consolidated Financial Statements for Holding Companies (FR Y-9C: OMB No. 7100-0128), which will lead to inaccurate and misleading company projections.

Detailed Discussion of Public Comment

A. Proposed Revisions

On July 2, 2013, the Federal Reserve approved revised risk-based and leverage capital requirements for banking organizations that implement the Basel III regulatory capital reforms and certain changes required by the

Dodd-Frank Act (revised capital framework).³ The revised capital framework introduces the new common equity tier 1 capital component and a new common equity tier 1 risk-based capital ratio, revises the definition of regulatory capital items, and changes the calculation of risk-weighted assets. All banking organizations that are not subject to the advanced approaches rule must begin to comply with the revised capital framework beginning on January 1, 2015.⁴ Under the Federal Reserve's final stress test rule⁵, banking organizations would be required to reflect the new capital rules, including the new common equity tier 1 capital component and ratio, in their company-run stress test planning horizon as the revised capital framework becomes applicable. However, on September 30, 2013, the Federal Reserve provided BHCs and SMBs with total consolidated assets of more than

³ See Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (July 2, 2013), available at: <http://www.federalreserve.gov/newsevents/press/bcreg/20130702a.htm>.

⁴ A banking organization is subject to the advanced approaches rule if it has consolidated assets greater than or equal to \$250 billion, if it has total consolidated on-balance sheet foreign exposures of at least \$10 billion, or if it elects to apply the advanced approaches rule.

⁵ See final rule on annual company-run stress test requirements for banking organizations with total consolidated assets over \$10 billion other than covered companies 77 FR 62378 (October 12, 2012) (codified at 12 CFR part, 252 subpart H).

\$10 billion but less than \$50 billion (other than state member banks that are subsidiaries of BHCs with total consolidated assets of \$50 billion or more) with a one-year transition period to incorporate the revised capital framework into their company-run stress tests (interim final stress test rule).⁶ Therefore, the FR Y-16 did not require companies to include the effects of the revised capital framework for the initial 2014 stress test cycle.

The Federal Reserve proposed to revise the FR Y-16 by adding a common equity tier 1 capital data item to the Balance Sheet Schedule for each scenario and a common equity tier 1 risk-based capital ratio data item to the Summary Schedule and the Balance Sheet Schedule for each scenario in order to reflect the requirements of the revised capital framework over the stress test planning horizon. These revisions would be effective for the 2015 stress test cycle (with reporting in March 2015). In addition, the Federal Reserve proposed to clarify the FR Y-16 instructions to emphasize that companies should transition to the revised capital framework requirements in its company-run stress test projections in the quarter in which the requirements become effective. Specifically, companies would be required to transition to the revised capital framework and begin including the common equity tier 1 capital data item and common equity tier 1 risk-based

⁶ See 78 FR 59791 (September 30, 2013).

capital ratio data item in projected quarter two (1st quarter 2015) through projected quarter nine (4th quarter 2016) for each supervisory scenario for the 2015 stress test cycle to be reported by March 31, 2015.

The commenter indicated that requiring the use of the revised capital framework over the planning horizon in the March 2015 FR Y-16 report will introduce volatility and ambiguity of a respondent's processes and results. Specifically, by requiring the reporting of the common equity tier 1 capital component and ratio beginning with projected quarter two (1st quarter 2015) of the planning horizon before these items are reported in the Call Report and the FR Y-9C will cause the companies to rely on pro forma estimates that will lead to inaccurate and misleading projections.⁷ In addition, the commenter asserted that because the changes to the Call Report and FR Y-9C risk-weighted asset schedules are in a proposed status, there will be difficulties for companies to produce accurate estimates without further guidance on the transition to the revised capital framework for this FR Y-16 line item.⁸ Lastly, the commenter indicated that the required public disclosure of the regulatory capital ratios over the planning horizon under

⁷ The reporting submission date for the March 2015 Call Report is 30 calendar days after March 31, while the submission date for the March 2015 FR Y-9C is 40 calendar days after March 31.

⁸ See 79 FR 35634 (June 23, 2014) and 79 FR 45808 (August 6, 2014).

different capital rules will cause confusion among bank shareholders and the general public.⁹

The Federal Reserve believes that the proposed additional items to the FR Y-16 would not place an undue burden on \$10-50 billion institutions as they have already been given additional time to incorporate the revised capital framework into their company-run stress tests. The interim final stress test rule on September 30, 2013 specifically provided \$10-50 billion banking organizations with a one-year transition period to incorporate the revised capital framework into their company-run stress tests. The one-year transition period decreased the operational complexity and risk of error for these companies for the initial 2014 stress test cycle by allowing them to focus on implementing stress testing processes without reflecting the revised capital rules over the planning horizon. The one-year transition also allowed companies additional time to evaluate the revised capital framework's effect on their regulatory capital items reported in the Call Report and FR Y-9C. Further, the Call Report and FR Y-9C regulatory capital schedules were revised effective March 2014 to reflect the revised capital framework for regulatory capital items for advanced approaches institutions; all other

⁹ Per the Board's final stress test rule, \$10-50 billion companies are required to publicly disclose the beginning value, ending value, and minimum value of each regulatory capital ratio over the planning horizon.

institutions, including \$10-50 billion institutions, are required to report the same revised regulatory capital schedule for March 31, 2015. In addition, the FR Y-16 reporting form and instructions has been updated to reference the applicable Call Report and FR Y-9C report items that should be reported over the planning horizon, including the new items that were created to capture the revised capital framework. The Federal Reserve will adjust the FR Y-16 schedules to be consistent with the final FR Y-9C and Call Report risk-weighted asset schedule changes once they are published. These adjustments are necessary to align the subcomponents of standardized risk-weighted assets with total standardized risk-weighted assets and will likely alleviate confusion about calculating projected total risk-weighted assets over the planning horizon. Lastly, the public disclosure by companies of the stress test results using the new capital rules applicable in the projected quarters of the planning horizon is required by the Board's final stress test rule and the Federal Reserve believes that this public disclosure will be informative to the public.

In summary, the Federal Reserve will implement the FR Y-16 data items for the March 2015 report to reflect the revised capital framework as proposed. Specifically, the Federal Reserve will add the common equity tier 1 capital data item to the Balance Sheet Schedule for each scenario and a

common equity tier 1 risk-based capital ratio data item to the Summary Schedule and the Balance Sheet Schedule for each scenario. The Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation plan to make similar changes to their \$10-50 billion company Dodd-Frank Act stress test reporting forms (OCC DFAST 10-50 report: OMB No. 1557-0311 and FDIC DFAST 10-50 report OMB No. 3064-0189) to reflect the revised capital framework for the March 2015 report.

B. Technical Changes/ Other Items

In response to a few technical, non-substantive comments received, some additional minor changes will be made in the final reporting form and instructions. These changes include clarified reporting instructions for the disallowed deferred tax asset and unrealized gains (losses) on available-for-sale (AFS) securities line items and updated descriptions of the total capital and total risk-based capital line items.

Board of Governors of the Federal Reserve System, October 20, 2014.

Robert deV. Frierson,
Secretary of the Board.
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